

Dexus (ASX: DXS)

ASX release



1 May 2018

March 2018 quarter portfolio update

Dexus today announced its property portfolio operational update for the quarter ended 31 March 2018.

Darren Steinberg, Dexus Chief Executive Officer said: "It's pleasing to see great traction across the key areas of our business which will contribute to our distribution per security growth guidance of 4.5-5% for FY18. This has been driven by continued leasing in our core markets and solid progress on opportunities in our development and trading pipeline."

Highlights

- Leased 92,822 square metres¹ of office space and 14,832 square metres¹ of office development space, across 73 transactions, with office portfolio occupancy increasing to 96.8%
- Leased 46,645 square metres¹ of industrial space across 24 transactions, with industrial portfolio occupancy increasing to 97.9%
- Reached key milestones across the group's \$4.2 billion development pipeline, including:
 - Finalising settlement on 105 Phillip Street, Parramatta, contributing to FY18 trading profits
 - Receiving Queensland Government support for the Waterfront Precinct proposal by Dexus to progress to the next stage under the Market-Led-Proposal Program
 - Receiving stage 1 approval of the State Significant Development Application for the mixed-use development at 201 Elizabeth Street, Sydney
 - Commencing construction of a new office development at 180 Flinders Street, Melbourne after securing John Holland as an anchor tenant
- Entered into conditional heads of agreement for the sale of the trading opportunity at 140 George Street, Parramatta to the Dexus Office Partnership. When finalised, this sale will contribute to FY18 trading profits

Dexus Office Portfolio

Key metrics	31 March 2018	31 December 2017
Occupancy by income	96.8%	96.5%
Occupancy by area	96.4%	95.7%
WALE by income	4.6 years	4.6 years
Average incentives	13.2% ²	15.0% ²

Kevin George, Executive General Manager, Office & Industrial said: "Positive dynamics have remained constant in all of our core office markets, with strong levels of enquiry continuing to convert to leasing in Perth as tenants choose to upgrade to better quality buildings and centralise into the CBD. In the three-month period, average incentives across the office portfolio reduced, reflecting the quantum of effective leasing deals undertaken in Sydney where we recorded incentives of 11.5% compared to Melbourne and Brisbane which recorded 19.2% and 21.7% respectively."

Over the quarter to 31 March 2018, 92,822 square metres¹ of office space was leased across 68 transactions. Notable activity during the quarter included:

- Securing five leases across 5,237 square metres at Australia Square, Sydney
- Securing three leases across 3,630 square metres at 11 Talavera Road, Macquarie Park
- Commonwealth Bank of Australia exercising its 3-year options at 101 and 150 George Street Parramatta

In addition, the leasing of office development space across 14,832 square metres¹ and five transactions included:

- Iluka Resources across 3,238 square metres at 240 St Georges Terrace, Perth, taking commitments to 47% of the space to be vacated by Woodside in December 2018
- John Holland across 7,693 square metres at 180 Flinders Street, Melbourne taking commitments to 39%

Occupancy (by income) increased to 96.8% from 96.5% at 31 December 2017 across the office portfolio, while the weighted average lease expiry (WALE) remained stable at 4.6 years. Dexus has an opportunity to capitalise on the strength of the Sydney office market, which represents 68% of expiries over the next three years to the end of FY20.

Dexus Industrial Portfolio

Key metrics	31 March 2018	31 December 2017
Occupancy by income	97.9%	97.5%
Occupancy by area	97.4%	97.9%
WALE by income	4.8 years	5.0 years
Average incentives	14.7%	15.8%

Over the quarter, 46,645 square metres¹ of industrial space was leased across 24 transactions, with notable activity including:

- Securing Everfast across 10,612 square metres at Pound Road West, Dandenong, increasing occupancy to 100%
- Securing Arjo-Huntleigh across 4,926 square metres at 1 Foundation Place, Greystanes
- Securing 10 leasing deals across 3,673 square metres at Axxess Corporate Park, Mount Waverley

Occupancy (by income) increased to 97.9% from 97.5% at 31 December 2017, while WALE reduced marginally to 4.8 years.

Development

The development of 105 Phillip Street in Parramatta reached practical completion during the period, resulting in the final settlement of this trading property. As part of the sales agreement, Dexus retains management of the property for five years post completion, ensuring our customer relationship is retained.

Construction continued at 100 Mount Street in North Sydney with the development currently at level 21, and the project receiving interest from a variety of multi-floor and single floor users. Completion is due in February 2019 with the development currently 60% leased.

In addition, in Sydney, Dexus received stage 1 approval of the State Significant Development Application for the mixed-use development at 201 Elizabeth Street.

In April 2018, works commenced on a new office development at 180 Flinders Street in Melbourne. 180 Flinders Street will provide circa 20,100 square metres of office space including the SJB Architect-designed 10-storey tower and will incorporate extensive refurbishment of the existing heritage offices. The development is targeting 5-star NABERS Energy and 5-star Green Star Design and as Built ratings with completion due in mid-2020.

Construction and marketing of The Annex at 12 Creek Street, Brisbane commenced in the period. The 7,400 square metre property is an attractive offering for small space users, with completion due in October 2019.

Also, in Brisbane, the Queensland Government endorsed Dexus's Waterfront Precinct proposal to progress to the next stage under the Market-Led-Proposal Program. The ambition of the proposal is to revitalise Brisbane's premier dining hub and give back the waterfront to the Brisbane community, creating a traffic-free precinct that delivers a global-standard business address and tourist destination in the heart of the CBD.

Four industrial developments were completed; one in Laverton North which is 100% leased and three in Greystanes, two of which are 100% leased. Construction continues over a further 55,300 square metres of industrial space at Laverton North and Greystanes.

Trading

The settlement of 105 Phillip Street in Parramatta was completed in March 2018. Dexus also entered into conditional heads of agreement for the sale of the trading opportunity at 140 George Street, Parramatta to the Dexus Office Partnership. When finalised, this sale will contribute to FY18 trading profits. The trading profits from both 105 Phillip Street and 140 George Street will achieve Dexus's FY18 target of \$35-\$40 million post tax.

During the period, the planning proposal for Stage 1 of 12 Frederick Street, St Leonards (North Shore Health Hub) was gazetted, securing hospital zoning for the site, with strong interest received from potential tenants for the specialist healthcare facility.

FY18 guidance

Dexus confirms its market guidance³ for the 12 months ending 30 June 2018 of distribution per security growth of 4.5-5.0%.

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About Dexus

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at \$26.5 billion. We believe that the strength and quality of our relationships will always be central to our success, and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own \$13.1 billion of office and industrial properties. We manage a further \$13.4 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$4.2 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.8 million square metres of office workspace across 55 properties, we are Australia's preferred office partner. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by 28,000 investors from 20 countries. With more than 30 years of expertise in property investment, development and asset management, we have a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for investors. www.dexus.com

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Dexus Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for Dexus (ASX: DXS)

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- 1 Including Heads of Agreement.
 - 2 Excluding development leasing.
 - 3 Barring unforeseen circumstances guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; underlying FFO per security growth of 2.5-3.0% underpinned by Dexus office portfolio like for like growth of 4-5%, Dexus industrial portfolio like for like income growth of 3-4%, management operations FFO of c.\$50 million and cost of debt in line with FY17; trading profits of \$35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of \$165-170 million; excluding any impact of the on-market securities buy-back and any further transactions.